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Q1 2021 General Motors Financial Company Inc Earnings Call - Pre-recorded

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CORPORATE PARTICIPANTS

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PRESENTATION

Stephen Jones ***General Motors Financial Company, Inc. - VP of IR***

Welcome to GM Financial's First Quarter 2021 Earnings Presentation. This is Steve Jones, Vice President of Investor Relations at GM Financial. With me today are Dan Berce, President and CEO of GM Financial; and Susan Sheffield, Chief Financial Officer. Before we proceed, I must remind everyone that the topics we will discuss during this presentation will include forward-looking statements, which are the company's current views with respect to future events and financial performance.

These forward-looking statements are subject to many assumptions, risks and uncertainties that could cause actual results to differ significantly from historical results or from those anticipated by us. The most significant of these risks are detailed from time to time in the company's filings and reports with the Securities and Exchange Commission, including the annual report on Form 10-K for the year ended December 31, 2020. If one or more of these risks or uncertainties materialize or if the underlying assumptions prove incorrect, our results may vary materially.

If you have questions on the material discussed, please feel free to contact me. My contact information can be found on both the earnings release and at the end of the presentation slides. We will be posting a transcript of this presentation to our website. I will now turn the call over to Dan Berce. Dan?

Daniel E. Berce ***General Motors Financial Company, Inc. - President & CEO***

Thanks, Steve. I'll start out with financial and operating highlights for our March 21 quarter. We had a very strong quarter with earnings before taxes of $1.2 billion, up from $200 million a year ago. Susan will get into the reasons for those increases in more depth. But basically, our year-over-year beat was driven by historically high used vehicle prices, strong current and expected credit performance and lower interest expense. Our total originations were up 22%, primarily due to North America retail loan and lease growth.

The strong originations drove our ending earning assets up to $100.8 billion. Retail penetration in the U.S. was fairly flat at 44%. And we had record low retail net charge-offs attributable to government support programs, changes in consumer spending behavior and improved recovery rates on repossessed vehicles. We continue to make strides in customer experience and loyalty with enhancements to our online credit application contributing to better customer experience and increased sales leads to dealers. Our funding platform remained very active, issuing $12 billion in public and private debt securities and renewing $6 billion in secured committed credit facilities. And we paid a $600 million dividend to GM in March.

Next slide, turning to retail loan portfolio. In North America, our originations increased 34% year-over-year to $7.6 billion, driven by higher GM sales, a higher GM Financial retail loan share and greater average amount financed. As you can see on this slide, our retail loan share increased from 36.3% a year ago to 38.3% in the March 2021 quarter. The composition of our portfolio continues to shift more toward prime with 65% of our portfolio now being considered prime, which is a FICO 680 or greater. The total portfolio reached $53.4 billion at March 31, 2021.

Turning to credit performance on the next slide. As I mentioned, we realized extremely low historic delinquency and annualized net charge-offs in the first quarter, due again to government support programs, changes in consumer spending behavior and strong used vehicle prices. Our delinquency rates were 1.4% on a 31- to 60-day basis, down from 2.7% a year ago and 61-plus delinquency was nearly half what it was a year ago at 50 basis points. Payment rates were higher across all FICO tiers. Our net charge-offs were 80 basis points, again, less than half what they were a year ago. We do expect credit metrics to begin to normalize late this calendar year as government support programs begin to taper.

Next slide, turning to operating leases. In the U.S., we originated $5.1 billion of leases driven by higher GM sales and a higher average lease amount financed. Lease mix was slightly less year-over-year at 20% compared to 23% a year ago. Our lease portfolio is stable at $40.3 billion as lease extensions and the higher average amount financed offset the impact of terminations.

Turning to used vehicle values. Everyone is aware that used vehicle values have increased significantly since the late summer and fall and specifically, so far in calendar 2021. On the right-hand side of this chart, we show the increase in values, whether it's for cars, SUVs, CUVs or trucks with each vehicle type realizing significantly stronger proceeds at termination compared to ALG residual at origination. Because of strong used vehicle values, the number of vehicles returned to us for remarketing and the return rate percentage have both declined in 2021.

Specifically, the return rate percentage has decreased to 55% from 79% a year ago. And the number of vehicles we are remarketing was a little over 80,000 compared to 114,000 a year ago. Used vehicle prices have increased approximately 11% year-over-year, looking at March '21 compared to a year ago, primarily due to continued low new vehicle inventory and strong demand for new and used vehicles driven by the economic recovery and government stimulus. We do expect prices to increase in the low to mid-single digits on a percentage basis for the full calendar year 2021, given sustained low new vehicle inventory and continued strong demand.

Next slide, our commercial lending business continues to gain traction with respect to the number of dealers. Our share in the U.S. has now reached 34% with 1,480 GM dealers in the U.S. availing themselves of our financing programs. Outstanding receivables were down from year-end due to low dealer new inventory, driven by the global semiconductor supply shortage impacting automobile production, combined with strong retail sales. Dealer health remained stable as dealers have benefited from robust auto sales resulting in higher margins for both new and used vehicles sales.

And finally, my last slide gives some stats on our China joint ventures. The performance of those joint ventures in China was very strong in the March 2021 quarter. Penetration levels remained strong in both the SGM and SGMW channels, and our loan originations were $3.5 billion in the March '21 quarter compared to $2.3 billion a year ago, driving our retail assets up to $18.2 billion, which combined with $4.6 billion of commercial receivables, gives us $22.8 billion portfolio at March 31, 2021. Credit performance has recovered in China with charge-offs being 30 basis points, and the growth in earning assets combined with the recovery in credit has led us to equity income of $54 million in the quarter compared to $26 million a year ago.

And with that, I'm going to turn it over to Susan.

Susan B. Sheffield ***General Motors Financial Company, Inc. - Executive VP & CFO***

Thank you, Dan. As you heard earlier, we earned $1.2 billion before taxes. The 3 key drivers were used vehicle prices driving gains on off-lease vehicles, credit/provision expense and interest expense beats.

So let's walk through the chart on Slide 10. Total revenue was down $154 million, but retail finance charge income was up $73 million due to the growth in the loan portfolio. This was offset by commercial finance charge income, which was down $63 million, really driven by the decline in the size of the portfolio due to lower new vehicle inventory and declining benchmark rates. Leased vehicle income was down $142 million year-over-year, primarily due to the slight decrease in the size of the portfolio as terminations of leases have exceeded new originations.

Leased vehicle expense. Leased vehicle expense decreased $453 million year-over-year, primarily due to a $327 million increase in lease termination gains driven by those higher used vehicle prices that Dan showed on the chart as well as $200 million in a decrease in depreciation of leased vehicles resulting from the increased residual value estimates.

Now let's turn to the provision for losses. The provision expense decreased $492 million year-over-year. This decline was driven by the reduction in reserve levels established at March 31, 2020, at the onset of the pandemic, coupled with actual credit performance coming in better than forecast and more favorable expectations for future charge-offs and recoveries based on improved economic forecasts.

Interest expense was down $185 million year-over-year due to lower effective rate of interest resulting from lower benchmark rates. Our effective interest rate was down 100 basis points year-over-year from 3.8% to 2.8%. And equity income increased, as Dan mentioned, up

$29 million due to the recovery in China. Stronger retail penetration has driven better origination volume and better credit performance.

Given the strong performance in Q1, positive outlook on used vehicle prices for the reasons discussed and credit performance, we are revising our outlook for calendar year 2021 earnings before tax to be in the low to mid-$3 billion range, which is up from our prior estimate of $2.5 billion.

Now let's turn to Slide 11 and look at the allowance. We talked about the change in provision expense, but how has this impacted our allowance for loan losses? The allowance for loan losses as a percentage at the end of March '21 was 3.3%, down from 4.4% a year ago. And really, the reasons are the same for the decline in the provision expense. It's better credit performance than forecast and favorable expectations for future charge-offs and recoveries associated with an improved economic outlook.

Also just to point out, March 2020 was impacted by the adoption of CECL, the new allowance for loan loss accounting standard, which we had to take a one-time catch-up charge of $801 million.

Turning to the balance sheet. Ending earning assets were just over $100 billion at the end of March 2021. The composition continues to shift toward retail loan given the growth in retail loan originations, offset a little bit by the decline in commercial receivables that was -- we discussed. Ending earning assets were up slightly from year-end, driven primarily by the increase in the retail loan portfolio as well as a small increase in leased vehicles.

Total debt was $94 billion at the end of March 2021, down slightly from $96.2 billion a year ago. Unsecured debt as a percent of total debt was 57% at the end of March 2021 compared to 52% a year ago. Available liquidity at March 31, '21 was $30.2 billion, and exceeded our target of at least 6 months of liquidity to support cash needs, including planned originations. The composition of the liquidity was -- had shifted year-over-year back to the more normal composition of more in borrowing capacity and less in cash. A year ago, we had borrowed on our credit facilities at the onset of the pandemic.

Turning to Slide 13. Our capital position has strengthened significantly over last year. Tangible equity is up $2.5 billion year-over-year, and this is due to the strong earnings that we've talked about. Also, you'll recall that Q1 of 2020 was negatively impacted by the CECL adoption, which we talked about; stronger U.S. dollar, which impacted our accumulated other comprehensive income and lower earnings. The leverage ratio was 7.94x, down from 9.32x a year ago, driven by the strong earnings, return on average tangible common equity at 27.3%. Again, strong earnings, including the dividend we paid to GM in March, still strong numbers there and low leverage.

Turning to our funding activity. We issued $12 billion in public and private debt securities in Q1. We raised $4.5 billion in public securitizations in the U.S. We issued $3.8 billion senior unsecured notes across our U.S., Canada and Europe programs. We closed 6 private securitizations totaling $3.7 billion and are basically 1/3 of our way through our funding platform for 2021. Subsequent to quarter-end, we raised $4 billion in public secured and unsecured debt. Our total committed credit facilities at the end of March were $26.6 billion, provided across 26 banks. And we renewed, as Dan said, $6 billion in secured facilities in the quarter.

In summary, we had a really strong quarter, earning $1.2 billion, dividending $600 million to GM and record levels of return on tangible common equity. So we want to thank all of our team members for their continued dedication to delivering on our strategic priorities, and thank you for your support and interest in GM Financial. I'll turn the call back to Steve.

Stephen Jones ***General Motors Financial Company, Inc. - VP of IR***

Thank you, Susan. This concludes GM Financial's First Quarter 2021 Earnings Presentation. If you have questions, please feel free to contact me. As mentioned, my contact information can be found on both the earnings release and at the end of the presentation slides. Thank you for your continued interest and support of GM Financial. Have a nice day.